

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

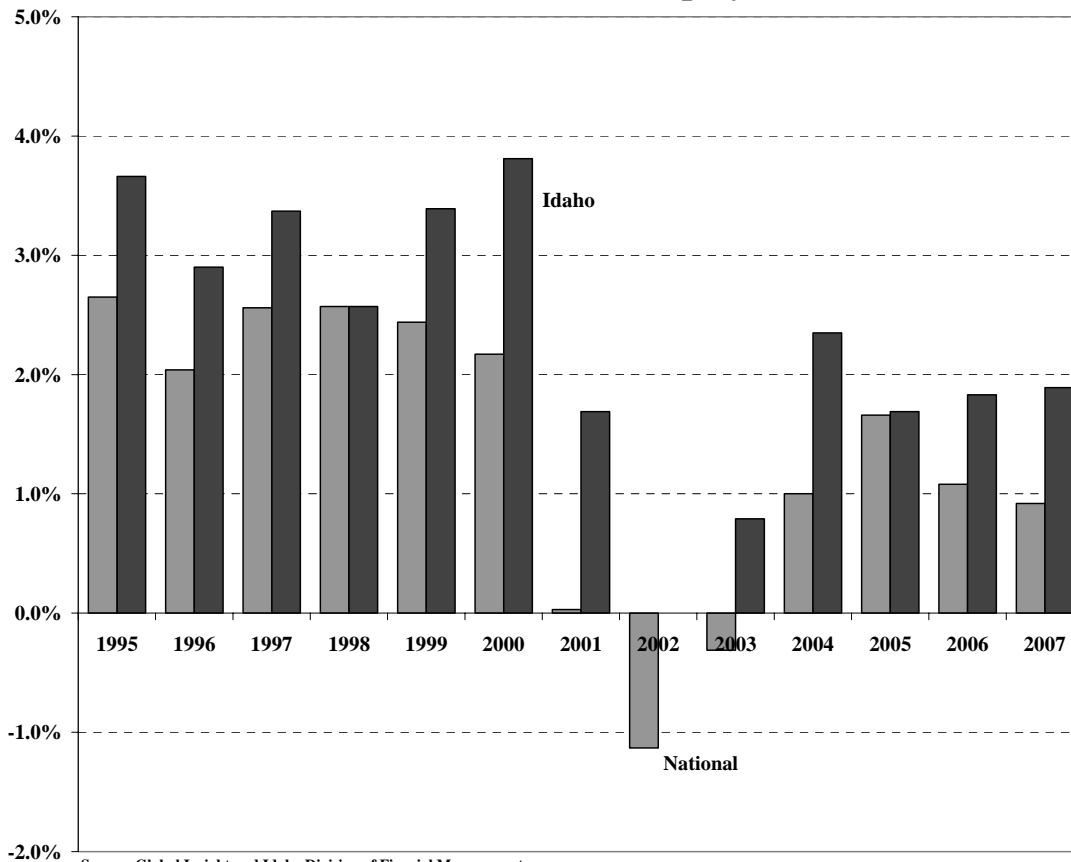
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- Forecast 2004-2007
- Two Measures of Employment: How Different Are they?
- Alternative Forecasts

Idaho vs National Nonfarm Employment Growth



Source: Global Insight and Idaho Division of Financial Management

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**IDAHO
ECONOMIC
FORECAST
2004 - 2007**

State of Idaho
DIRK KEMPTHORNE
Governor

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PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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TABLE OF CONTENTS

Preface.....	iii
Introduction.....	2
Executive Summary	5
Idaho and U.S. Forecast Summary Tables.....	6
Forecast Description:	
National.....	8
Idaho	14
Forecasts Comparison.....	20
Alternative Forecasts	22
Feature Article	
The Productivity and Jobs Connection: The Long and the Short Run of It.....	25
Forecast Detail	29
Annual Forecast	30
Quarterly Forecast	44
Appendix.....	59
Global Insight U.S. Macroeconomic Model.....	60
Idaho Economic Model.....	62
Equations	64
Endogenous Variables	68
Exogenous Variables	70

INTRODUCTION

The national forecast presented in this publication is the September 2004 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the June 2004 Global Insight baseline national forecast.

A comparison of Idaho nonfarm employment growth and its national counterpart are featured in this Forecast's cover graph. As the graph shows, Idaho nonfarm employment is expected to continue to grow faster than U.S. nonfarm employment over the next few years. Specifically, Idaho nonfarm employment is anticipated to rise 2.4% in 2004, 1.7% in 2005, 1.8% in 2006, and 1.9% in 2007. At the national level, nonfarm employment should advance 1.0% this year, 1.7% next year, 1.1% in 2006, and 0.9% in 2007.

FEATURE

One of the most difficult questions to answer during the current economic recovery is: What is the state of the job market at the national level? This is because two widely used measures of job performance have been giving different answers. The estimate that measures the number of jobs, the payroll survey, portrays a disappointing job market with smaller-than-expected gains. The other estimate that measures the numbers of Americans unemployed, the household survey, suggests a somewhat stronger labor market. In the feature article titled, "Two Measures of Employment: How Different Are They?" Federal Reserve Bank of San Francisco's Tao Wu explains how these two measures differ and which is more accurate.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1991 to 2007 and for every quarter from 2001 through 2007. The solution of the Idaho Economic Model (IEM) for this forecast begins with the second quarter of 2004.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The historical Idaho nonfarm employment data appearing in this forecast was provided by the Idaho Department of Commerce and Labor and seasonally adjusted by the Division of Financial Management. This data consists of final employment estimates through the first quarter of 2004 and preliminary data for the second quarter of 2004. These new historical data show the employment forecasts made in April 2004 for the fourth quarter of 2003 and first quarter of 2004 were a bit pessimistic. Specifically, actual employment was about 3,500 higher in the first quarter of 2004 than had been anticipated and about 5,000 higher than had been projected for the second quarter of 2004. Keep in mind that not all of this difference was due to economic factors. It is estimated about 1,400 of the increase is due a revision to number of jobs in the noneducation-related sector.

The tables in this forecast also include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the first quarter of 2004. The BEA released its latest Idaho personal income estimates in late September 2004. These new data will be incorporated into the January 2005 *Idaho Economic Forecast*.

The *Idaho Economic Forecast* is available on the Internet at http://www.state.id.us/dfm/econ_pub.html. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at http://www.state.id.us/dfm/econ_pub.html.

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